

# **MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

**February 28, 1996**

The Capital Projects and Bond Oversight Committee met on Wednesday, February 28, 1996, at 1:00 p.m. in Room 113 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Charlie Borders, Jeff Green, and Bob Leeper; Representatives Jim Maggard, Tommy Todd, and Jim Wayne.

Guests: Margaret Greene, Secretary of the Executive; Dr. James Ramsey, Bill Hintze, Roger Burge, Chris Clark, Allen Holt, Governor's Office for Policy and Management; Commissioner Clark Beauchamp, Jim Abbott, Department for Facilities Management; Tom Howard, Kim Blitch, Office of Financial Management and Economic Analysis; Dee Baugh, Carl Dills, Department of Agriculture; Melanie Bailey, Natural Resources and Environmental Protection Cabinet; Bob Bender, Hugh Smith, Department of Parks; Ernie Tacogue, Department of Education; Mike Haydon, State Treasurer's Office; Woody Baldwin, Kentucky State University; Sherron Jackson, Council on Higher Education; Joe Ewalt, Lexington-Fayette Urban County Government; Jack Affeldt, Ed Sergent, Linda Kubala, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Scott Varland, Esther Robison.

Representative Todd made a motion to approve as submitted the minutes of the January 24, 1996 meeting. The motion was seconded by Representative Wayne and approved.

Chairman Damron said first on the agenda was a presentation by Margaret Greene, Secretary of the Executive, and Bill Hintze, Deputy State Budget Director, on EMPOWER KENTUCKY, an initiative of Governor Paul Patton included in his 1996-98

selection and implementation, the capital construction statutes that this Committee operates under. He said he knew most of the members are very concerned about suspension of the capital construction statutes, and for this reason he asked Secretary Greene to brief the Committee today, to explain the need for suspension of the statutes and answer any questions Committee members might have.

Chairman Damron said he appreciates Secretary Greene coming to address the Committee, particularly because this is not a required step in the budget process. He said he also appreciated her willingness to discuss this topic at length with him earlier in the day. Secretary Greene thanked the Committee for giving her the chance to address today what she knew to be the members' concerns about this project. She said the goal of EMPOWER KENTUCKY is to build a state government organization that delivers effective services at a cost substantially lower than current projections. She said this will be accomplished by taking a defined amount of one-time revenues as set out in the Governor's Budget to redesign the way that work is done, to support the new work flows with information technology, and to invest in training and effective management structures. She said process redesign will be accomplished by utilizing employees of state government, because those are the people who know best how to do the work and how the work is done. They will be asked to help design a system that helps in delivery of services in a professional and efficient, yet cost-effective, manner.

Secretary Greene identified what EMPOWER KENTUCKY is not. She said it is not a program to give the Governor the authority to suspend the Procurement Code; it is not a program to build buildings; and it will not touch the capital construction contingency fund, nor give the Governor the authority to issue bonds, nor invade the Budget Reserve Trust Fund, and nor will it shut down state government to increase the year-end lapse. She said all of these questions have been raised by members of the legislature, and the Executive wants to address those concerns as expeditiously as it can. She said she attempted to address concerns identified to date in a letter sent the previous day to the Chairs of the House and Senate Appropriations and Revenue Committees, which has also been provided to all Committee members. The letter attempts to outline the intentions behind the Executive's request to suspend some statutes, and clarifies that the Executive does not request suspension of KRS Chapter 18A or any other personnel codes, nor is suspension of procurement statutes requested. She said she recognizes that the re-engineering process, and the technology and training investments resulting from that process, will not come to the legislature with the specificity it is used to or with the specificity of a capital construction

Secretary Greene said the state will have an unusual situation at the end of this fiscal year, a one-time surplus of revenues of \$107-200 million. She said it is the Governor's intent to invest this non-recurring revenue in the re-engineering discipline to achieve significant, recurring cost savings. Only through this investment in efficiency can the state hope to achieve room in future budgets for new programs and much needed initiatives, she said, while embracing and endorsing the public's desire for a reduced tax burden.

Chairman Damron asked which other states have taken this step, and if they suspended their capital construction statutes. Secretary Greene said New Jersey put a similar program into effect, realized over \$100 million in first-year savings, and now, about 2.5 years into the program, projects budget savings totaling over \$1.8 billion. Arizona saved \$34 million in the first year of a similar program. Ohio redesigned its department for administrative services, and going through one process, estimates it will save \$7-10 million annually. Delaware used a "business systems master plan initiative," and realized a 50% increase in baseline tax enforcement, so the system paid for itself in 12 months. Oklahoma and Arkansas have tried similar, though more limited approaches. Secretary Greene said she does not know if the other states have suspended their capital construction statutes.

Chairman Damron asked if the other states gave their governor a pool of money to work with, or if their legislatures were involved in general appropriations for specific areas. Secretary Greene said she did not have that information.

Chairman Damron asked if the Executive would oppose language in the budget prohibiting use of the contingency and emergency accounts for EMPOWER KENTUCKY. Secretary Greene said she would not oppose such language.

Chairman Damron said the Executive in discussion has identified several specific projects in certain areas that it would like to explore. He asked if the Executive would have a problem with setting aside a specific amount, less than the total amount being asked for, and having those funds to work with between now and January 1997, with a commitment from the Governor that when he is ready to proceed to the next step, that he call the legislature back into special session. That way, he said, the legislative process would still have some control over the appropriation process. Secretary Greene said she had several concerns with that proposal. First, EMPOWER KENTUCKY would have a governing entity called the redesign steering committee,

the program, so the Executive would like the steering committee to have the authority to make those investments and get the cost savings as soon as possible.

Also, Secretary Greene said, the Administration needs to know the overall budget for the project so it can plan and invest in areas where it will get the most savings; the total amount of money available for the project will be critical in determining how investments are made.

Chairman Damron asked what reporting process the Executive envisions to keep the legislature informed of developments. Secretary Greene said the reporting process as set out in the Executive Budget will be at least 3-fold, and she said the Executive is willing to discuss any other reporting mechanisms the legislature thinks might be appropriate. She said the first reporting process, since the Procurement Code will not be suspended, will be regular reports to the Personal Services Contract Review Subcommittee; second, the redesign steering committee, the project's governing body, will have legislative members; and third, the Executive would make quarterly progress reports to whichever entity the legislature deems appropriate.

Representative Wayne said EMPOWER KENTUCKY sounds very exciting. He asked if Secretary Greene could use a specific project for illustration, and explain how the project would progress under EMPOWER KENTUCKY, as compared to the current process. Secretary Greene said the proposal is to look at how work is done today, with a classic example being in the Cabinet for Human Resources where there currently are 13 separate public assistance agencies. As a client enters the system for assistance today, there are functional workers in each of the areas, and each of the workers takes repetitive information from the client. If the client qualifies for 6 different assistance programs, that person has to go to 6 different locations, and deal with 6 different workers who may or may not know the other workers are involved. She said the state could design a common intake system, and have employees retrained so each worker is not a functional expert in just one program. Then, with combined training and a common database, the state could dramatically reduce the number of intake points and the level of inconvenience for clients, and the state could serve clients in a more cost-effective and more efficient manner.

Secretary Greene said there is a concrete example in the Agriculture Department, though the EMPOWER KENTUCKY process would be more hands-on and involve front-line employees. She said a consultant has helped the Department with redesign

Representative Wayne said it sounds like state government might be able to catch up with corporate America in some ways. Secretary Greene said this process has been used a lot in American business. However, one of the specific marching orders the Governor has given her, she said, is that government does not operate like a business, and the Executive is not under the assumption that it will operate like a business. But, she said, there are significant improvements that can be made, and the state has a unique opportunity with these one-time revenues to invest them in a way that will achieve recurring cost reductions.

Representative Wayne asked what changes there will be in the way capital projects are undertaken. Secretary Greene said one specific difference before the Committee today is that the Executive is not presenting a project to purchase a specific computer system at a specific cost. Projects will not be submitted in such a neat package for approval. She said, with regard to whether the capital construction cycle will change as a result of this initiative, she really would be getting the cart before the horse to say that. One of the things that will not be done, she said, as we enter the redesign stage, is prejudging or assigning headcount reductions to cabinets. She said state government will be taking a fresh look at what it does and how it does it.

Chairman Damron asked if the 800 MHz Digital Trunked Radio Statewide System is one of the projects being planned. Secretary Greene said a list of projects totaling \$149 million was identified in the Executive Budget document; the purpose of the list was to give an illustration of the types of technology projects that are out there. She said she did not believe that the 800 MHz system will have a significant cost savings component to justify its inclusion in EMPOWER KENTUCKY.

Chairman Damron asked if the 800 MHz system is included elsewhere in the Executive Budget. Mr. Hintze said the 800 MHz system is listed, for illustrative purposes, in EMPOWER KENTUCKY because of a recognition in the Executive Branch that something very significant is needed in that realm. It was the top priority of the Kentucky Information Resources Management Commission (KIRM), which was established by the General Assembly to review information technology requests for budgetary support, planning, etc. However, he said, the Executive's thought throughout has been that the 800 MHz system probably will have to be bonded. He said the \$42 million listed in EMPOWER KENTUCKY indicates that the system is an eligible project; he said what Secretary Greene is saying is that the system is not likely to be among the top priorities, given the competition for cost savings initiatives. He said that does not

appropriation in the Executive Budget for the 800 MHz system, but that is not to say that work is not underway or that the need is not recognized.

Chairman Damron said he believes some people who are really pushing EMPOWER KENTUCKY are of the understanding that 800 MHz will be included. Secretary Greene said EMPOWER KENTUCKY is about technology, but it is really about redesigning work processes. She said none of the projects listed have been designed with the assumptions in mind that they will use in EMPOWER KENTUCKY. She said the project list was included for illustration purposes, and to give some idea of the magnitude and dollar amount of technology needs that exist in state government.

Mr. Hintze told Chairman Damron that if the 800 MHz pilot program is evaluated with positive results, assuming that a suitable pilot is selected, a request will be submitted to the legislature for a bond-funded appropriation in regular or special session, probably in about a year. He said that way the state will have a track record on which to base this \$125 million decision. Chairman Damron said he knows that the Kentucky State Police and Disaster and Emergency Services are at a critical level on their communications systems right now. He said the 800 MHz system is a high priority for him. Since there are now communications "dead zones" where officers truly are out there on their own, State Police officers are at risk across the state. Mr. Hintze said the Administration agrees that the 800 MHz system is a high priority for public safety and the safety of police officers. He said the Governor weighed carefully in budget deliberations whether, as a stopgap, additional millions of dollars should be invested in replacement radios or an alternative system. It ultimately was decided not to take stopgap measures. He said the 800 MHz system is not at all a dead issue, and will be addressed after the pilot program is evaluated, probably in about a year in regular or special session.

Senator Green said he shares Representative Wayne's interest in EMPOWER KENTUCKY, however tempered with caution. He said this Committee, once the legislature is out of session, is seen by the legislature and the public as sort of a last line of defense on the issue of capital projects and bond oversight, and the expenditure of tax dollars. He said he just wants to make sure that in undertaking EMPOWER KENTUCKY and doing great things for the state, we do not lose sight of the fact that, as far as expenditure of state dollars for capital construction projects is concerned, the legislature ultimately is the entity that makes decisions about how those dollars are to be spent. Mr. Hintze said there is no question that is true.

has been chairman, he has made sure House members are informed of any project in their area that comes through this Committee, and Senator Green does the same for the Senate. Chairman Damron thanked Secretary Greene for appearing before the Committee today.

Chairman Damron said several Correspondence items were provided:

1. The Kentucky Lottery Corporation provided its monthly financial report for January 1996.
2. A letter from Clark Beauchamp, Commissioner of Facilities Management, provided a report on the state's experience with construction management contracts. Mr. Beauchamp reviewed the last 8 projects using construction managers and found the experience to be mixed - 4 were plagued with problems and the other 4 went well.
3. A copy was provided of a memorandum from Chairman Damron and Vice-Chairman Green to the chairs of the House and Senate Appropriations and Revenue Committees and the chair of the Budget Review Subcommittee on General Government, expressing the Committee's support for funding for the capital construction emergency and contingency accounts as recommended by the Governor's 1996-98 Executive Budget.
4. A memorandum from Jim Abbott, Director, Division of Real Properties, reported on the status of the use of Ash Building space by the Department for Environmental Protection (DEP), Natural Resources and Environmental Protection Cabinet. The memo reports that DEP no longer plans to move its Biological Unit into former chemical laboratory space at the Ash Building. The Biological Unit will stay in its current space, and the chemical lab space will be used for a video editing room, file and storage rooms, and office space.

First under New Business was a report from Mr. Jim Abbott of Real Properties on the amortization of leasehold improvements for office space leased by the Cabinet for Human Resources in McLean County (PR-1916 providing 2,934 sq. ft. on Main Street, Island). CHR requested that deteriorated carpet in the older section be replaced to match carpet in a new 545 sq. ft. area recently acquired to alleviate overcrowding, and to provide tile floors in restrooms now carpeted. CHR reported that existing carpet is worn and stained, and carpet in the restrooms is malodorous.

Mr. Abbott said carpet replacement is customarily a lessor's responsibility; however, the cost in this instance will be borne by CHR based on several factors. He

lease modifications of less than \$50,000 must be reported to the Committee within 30 days after execution, but no Committee action is required.

Next on the agenda were the bond activity reports from the Office of Financial Management and Economic Analysis (OFMEA). Mr. Tom Howard of OFMEA was present to report new bond issues. First were School Building Revenue Bonds, Series 1996, with state funding through School Facilities Construction Commission (SFCC) participation in annual debt service payments, for the following school districts:

a. Augusta Independent (in Bracken County) - with gross proceeds of \$575,000, to fund renovations at school facilities and the central office. Annual SFCC debt service participation of \$8,592 and locally-funded debt service of \$40,464.

b. Bullitt County - with gross proceeds of \$1,525,000, to refund School District bonds issued in 1986. Annual SFCC debt service participation of \$192,000 (100%).

c. Bullitt County - with gross proceeds of \$5,200,000, to construct a new elementary school. Annual SFCC debt service participation of \$18,910 and locally-funded debt service of \$456,724.

d. Cumberland County - with gross proceeds of \$1,945,000, to refund 1986 bonds. Annual SFCC debt service participation of \$79,631 and locally-funded debt service of \$220,446.

e. Floyd County - with gross proceeds of \$8,680,000, to fund a renovation and addition project at Prestonsburg High School, and to refinance 1988 bonds. Annual SFCC debt service participation for the renovation portion of the issue (20-year term) is \$105,352 with locally-funded debt service of \$297,661. Annual SFCC debt service participation for the refunding portion (12-year term) is \$146,026 and locally-funded debt service of \$261,370.

f. Harrison County - with gross proceeds of \$2,055,000, to fund a classroom addition at the middle school, and HVAC improvements at 4 elementary school buildings. Annual SFCC debt service participation of \$16,682 and locally-funded debt service of \$138,654.

g. Jackson County - with gross proceeds of \$2,020,000, to refund 1989 bonds. Annual SFCC debt service participation of \$115,656 and locally-funded debt service of \$83,843.

h. Jessamine County - with gross proceeds of \$945,000, to refund 1986 bonds. Annual SFCC debt service participation of \$120,000 (100%).

i. Rowan County - with gross proceeds of \$7,665,000, to refund school bonds



Bond Payee Disclosure Forms and additional preliminary information for each proposed new bond issue were provided, and none of the new issues required an increase in local school tax rates. Representative Maggard made a motion to approve the 11 SFCC-assisted school bond issues. The motion was seconded by Representative Wayne and approved by unanimous voice vote.

Also reported was the proposed issuance of School Building Revenue and Refunding Bonds, Series 1996, with 100% locally-funded debt service and no SFCC debt service participation, for the Christian County School District, with gross proceeds of \$4,450,000, to finance a partial refunding of 1990 bonds. Bond Payee Disclosure Forms and additional preliminary information for the bond issue were provided. Chairman Damron said the Committee's staff had reviewed the bond issue and found that all required information was provided; there is no related local school tax rate increase. Bond payee information must be provided for locally-funded school bonds prior to issuance, but Committee action is not required.

Mr. Howard also reported 2 new university issues, the first being University of Kentucky Housing and Dining System Revenue Bonds, 1996 Series P. The issue, with gross proceeds of \$2,140,000, will fund renovations at 3 dorms: Haggin Hall Windows (\$445,000), Donovan Hall HVAC (\$852,000), and Greg Page I (\$600,000). (The projects are approved for funding with agency bonds as part of the \$35,000,000 University Restricted Funds Bond Projects Pool authorized for the Council on Higher Education by the 1994 General Assembly.) The Series P bonds are expected to sell by competitive bid on April 2, 1996, at 5.25% for 20 years, with an "A1" rating. Senator Green made a motion to approve the UK bond issue. The motion was seconded by Senator Leeper and approved by unanimous voice vote.

Mr. Howard also reported a new bond issue for Murray State University (MuSU) - Housing and Dining System Revenue Bonds, 1996 Series M. The issue, with gross proceeds of \$7,530,000, will fund renovations at Woods Hall (\$5,737,350) and Winslow Cafeteria (\$750,000). (These projects have also been approved for funding with agency bonds as part of the 1994-96 University Restricted Funds Bond Projects Pool.) The Series M bonds are expected to sell in March 1996 by competitive bid, at 5.49% for 20 years. Mr. Howard explained that, because MuSU has not sold housing and dining bonds in 25 years, there is no outstanding rating for this issuance; applications are pending before the rating agencies. Senator Leeper made a motion to approve the

(GOPM), and Commissioner Clark Beauchamp, Department for Facilities Management, were present. Before considering the projects, Chairman Damron presented Commissioner Beauchamp with a "resolution," in recognition of his years of working with the Committee and in honor of his retirement from state government.

The first project reported involved an allocation of \$165,000 from the emergency repair, maintenance and replacement account for Kentucky State University, to supplement \$377,000 in agency funds for an HVAC Upgrade project in Hume Hall. Mr. Hintze said this Committee has seen emergency allocations totaling \$673,000 in the past for roof repairs/replacement at Hume Hall, necessitated by damage suffered from a 1983 fire. He said KSU has provided from its own sources \$377,000 for the HVAC system repairs and upgrades that are an integral part of the roof project. He said when bids were opened, the low bid on the HVAC portion of the project came in \$165,000 over scope. This project is so related to the roof project previously reported and funded from the emergency account, he said, that Facilities Management recommended that the HVAC project move forward in tandem with the roof project. Mr. Hintze said this allocation from the emergency account will allow the project to be completed, and the entire bid to be awarded.

Representative Maggard made a motion to approve the emergency allocation for the project. The motion was seconded by Representative Wayne and approved by unanimous voice vote. Chairman Damron noted that Committee action is not required for allocations from the emergency account, but because the Committee has seen the Hume Hall projects so often, it decided action on this allocation was preferable.

Next reported was an allocation of \$700,000 from the emergency account for the Central State Hospital Recovery Project, as authorized by the 1994 General Assembly. The 1994 appropriations act provided that up to \$460,000 in FY 1995 and up to \$700,000 in FY 1996 could be provided from the emergency account for this project. (The FY 1995 allocation of \$460,000 was reported to the Committee in May 1995.) The 1994 authorization included \$210,000 in restricted funds in each year to be contributed by Jefferson County and the City of Anchorage. The project involves secure fencing, environmental (asbestos) work, demolition, and other related costs. This 5-year project, managed by the Central State Recovery Authority, will ultimately convert the 52-acre property to green space.

Mr. Hintze noted that the Committee in the past has expressed concern that this

In response to a question from Chairman Damron, Mr. Hintze confirmed that thus far in the 1996 budget process, there are no projects proposed for funding from either the emergency or contingency accounts.

Senator Green made a motion to approve the emergency allocation for the project. The motion was seconded by Representative Wayne and approved by a unanimous voice vote. Chairman Damron said, since this project is so unusual, the Committee decided to take action on this emergency allocation as well.

Mr. Hintze next reported an allocation of \$120,000 from the capital construction and equipment purchase contingency account to fund a bid cost overrun (14%) on the Lodge Renovation project at Natural Bridge State Park. The new total project scope is \$968,000. [This Parks Revitalization Project was authorized by the 1994 General Assembly as part of the Surplus Expenditure Plan. Design funds of \$48,000 were provided from the Parks Revitalization Project Design Pool (based on 6% of estimated project scope), along with construction funds of \$800,000 in bond funds.]

NOTE TO STAFF: GREEN SHEET MODIFIED POST MEETING TO DELETE DESIGN FUNDS FROM PROJECT SCOPE, FOR NEW TOTAL SCOPE OF \$920,000.

Mr. Hintze said when the 5 bids were opened for this relatively small Lodge Renovation project, the lowest of the bids was \$120,000 over the estimated scope. Due to a very tight time frame since the Park has been scheduled for closure, he said, this contingency allocation will allow the project to proceed as planned. He stated this is the second of the 6 Parks Revitalization projects bid thus far to come in over scope. He said this contingency allocation for the Natural Bridge project is considered to be an advance which hopefully can be repaid either from savings from other Parks Revitalization projects or investment income accrued from the Parks bonds. He also noted that this is the last of the lodge renovation projects in this cycle; the rest will be ready for bid in about a year.

Chairman Damron asked if additional bid overruns are anticipated for the other Parks Revitalization projects. Commissioner Beauchamp said right now the bid market is very tight, and the 5 bids for this project were pretty close together. He said with all of the Parks projects in the market at the same time, as he warned people early on, the state may overload the available bidders.

\$152,000. Mr. Hintze said the custom designed system, housed in a large truck, will test accuracy on liquid hauling equipment, including fuel and chemical tankers and milk delivery systems. Agriculture reported that the cost increase is due to the time lapse between the budget estimate and bidding of the project. Senator Leeper made a motion to approve the cost overrun for the project. The motion was seconded by Senator Green and approved by unanimous voice vote.

Chairman Damron said the next 2 meetings of the Committee were scheduled for Wednesday, March 20, at 1:00 p.m., and Thursday, April 11 (the 1st day of the veto session), at 12:00 noon. There being no further business to come before the Committee, the meeting was adjourned at 1:45 p.m.